




<b>Meeting Date:</b>	Mon, 28 Jun 2010 10:00	<b>Proxy Deadline:</b>	Thu, 24 Jun 2010	<b>Type:</b>	EGM	<b>Issue date:</b>	Tue, 22 Jun 2010
<b>Meeting Location:</b>	The Westin Prince Hotel, Prince North Ballroom, 900 York Mills Road, Toronto, Ontario, Canada						
<b>Sector:</b>	Auto parts & equipment						

PROPOSALS	ADVICE
<p><b>1* Approve the plan of arrangement</b></p> <p>Shareholders are asked to approve a reorganization of Magna that would result in the elimination of the company's dual class share structure by way of a court-approved plan of arrangement (the "Arrangement"). If the Arrangement is approved and completed, Magna would purchase for cancellation all of the 726,829 issued and outstanding Class B Shares which are 100% owned by the Stronach Trust, and the Trust in turn would indirectly receive 9,000,000 newly issued Class A Subordinate Voting Shares and US\$300 million in cash (with the Arrangement having a total value of US\$863 million). Immediately following the Arrangement, Magna would have a single class of voting equity securities, each having one vote per share, and the Stronach Trust would indirectly hold 7.44% of the outstanding shares of such class.</p> <p>If approved and completed, the Arrangement would also create a joint venture between affiliates of Magna and the Stronach Trust. Magna would indirectly invest US\$220 million for a 73.33% interest in the partnership. Magna's investment would include the transfer of the net assets of Magna's recently established E-Car Systems operating group and certain other vehicle electrification assets and the balance in cash. The Stronach Trust would indirectly invest US\$80 million in cash for a 26.67% interest and would have effective control of the partnership through the right to appoint three of the five members of the management committee of general partners, with Magna having the right to appoint the remaining two members. Magna would also have effective veto rights in respect of certain fundamental changes and specified business decisions.</p> <p>PIRC assesses corporate transactions based on the information disclosed by the company and the level of board independence. Overall, we incorporated the following considerations into our voting recommendation:</p> <p><b>1. Company Disclosure:</b></p> <p>In PIRC's view, the main overarching issue regarding the Arrangement is that there is insufficient disclosure such that shareholders cannot make an informed decision regarding the matter. Specifically, the company's Special Committee assigned to oversee the Arrangement did not release a fairness report by an independent valuator. In response to shareholder dissent regarding disclosure, the company has recently released on its website two reports on the Arrangement, one an examination by CIBC World Markets Inc. and the other an evaluation by PricewaterhouseCoopers on the value of the company's electric vehicle business. CIBC, however, have indicated that they were not asked to provide a fairness opinion or former valuation of the transaction, but to analyze previous dual-class share reorganizations, review the performance of Magna shares against those of other auto parts makers and assess the impact of the deal on shareholders. However, of note, CIBC did warn of "significant negative reaction" from shareholders that the Arrangement would cause a dilution of more than 11 percent. In light of the above noted issues, the Ontario Securities Commission (OSC) have called for more disclosure by the company of analysis of the fairness of the deal and the negotiations that led to the proposal (refer to Point 4). Finally and perhaps most importantly, the board of directors have offered no recommendation on whether to vote for or against the proposal.</p> <p>This lack of disclosure compounds an already difficult choice shareholders face in trying to balance the long term benefits of abolishing the company's dual-class</p>	<p><b>Oppose</b></p>

share structure with the short term disadvantage that the 1,798 per cent premium Mr. Stronach is receiving for his shares will place upon the company's finances. Of note, there is no disclosure as to how the company is planning to raise the US\$863 million required to secure the Arrangement, which would be even more crucial considering net incomes losses of nearly US\$500 million reported by the company in fiscal 2009.

## **2. Board Governance Considerations:**

There is insufficient independence on the board according to PIRC guidelines (45.5%), predominantly due to length of tenure. In addition, PIRC considers the board to have time commitment issues (five of the eleven directors). Of note, as Mr. Stronach would remain on the board as Non-Executive Chairman as part of the Arrangement, PIRC has specific additional concerns regarding his independence, as he is the founder of the company and a trustee and member of the class of potential beneficiaries of the Stronach Trust, which has material business connections with the company as evidenced above (i.e., joint venture). Also, Mr. Stronach is Partner of Stronach & Co., through which he provides certain consulting and business development services to the company, which will also continue for another four years upon approval of the Arrangement. There are also concerns that the Mr. Stronach is also the Chair of the Nomination Committee. These independence and time commitment concerns have particular relevance to the Arrangement, given that the board have offered no recommendation on the matter, as noted above.

## **3. Share dilution:**

According to the previously noted CIBC World Markets report, the proposed terms of the Arrangement would result in a much higher level of dilution (11.4%) to the subordinate voting shareholders (Class A) than in precedent class share reorganizations reviewed as part of their assessment (0%-3%).

## **4. Shareholder and market reaction:**

The company have argued that the market reaction has been positive, with the share price having rose to \$73.26CAD on the day of the announcement of the proposed Arrangement, from a price of \$64.27CAD at the beginning of May. However, we note that the share price has reportedly been undervalued for years because of its dual ownership structure, an observation which was underlined in the circular the company mailed to shareholders prior to the June 28 AGM. Specifically, the circular states "Despite Magna's strong operating and financial performance, the Class A Subordinate Voting Shares have traded at enterprise value to EBITDA [earnings before interest, taxes, depreciation and amortization] multiples that are significantly below Magna's industry peers."

As a result of the governance issues raised above amongst other considerations, a group of institutional shareholders (namely the Ontario Teachers Pension Plan, Ontario Municipal Employees Retirement System, Canada Pension Plan Investment Board, British Columbia Investment Management Corporation, Alberta Investment Management Corporation, and Letko, Brosseau & Associates Inc.) opposed to the Arrangement will have a limited say at an OSC hearing on June 23, 2010 to decide whether the Arrangement can go ahead. As noted above, the regulator has expressed concerns regarding the Arrangement, stating that "shareholders are being asked to approve the deal without a recommendation by Magna's board of directors and with insufficient information to make an informed decision", and called the review process by Magna's board "inadequate." In response, the company has states that any concerns regarding the fairness of the deal should be raised with the Ontario Superior Court after the deal has been voted upon.

## **5. Proposed Joint Venture:**

Of specific note, the terms of the proposed joint venture on the electric car division are of particular concern, considering that Mr. Stronach would have control of the venture and appoint a majority of its board after making an \$80-million investment for a 27-per-cent ownership interest. Magna also proposes to create a dual-class share structure for the E-Car joint venture when it is converted into a corporation down the road, which would cement Mr. Stronach's control of the company.

## **PIRC VOTING RECOMMENDATION:**

PIRC supports the principle of "one share, one vote", as its potential benefits (as it relates to the Arrangement in question) would include, amongst others, the elimination of all or part of the seemingly long existing trading discount of the

Class A shares (as noted above) as well as enhanced accountability of directors as they will be elected or removed by public shareholders instead of the current controlling shareholder. However, PIRC feels that any potential long terms benefits that an equitable share structure would theoretically provide, is overshadowed by the short term considerations raised above, most importantly the lack of disclosure provided to shareholders with which to make an informed decision regarding this matter, an opinion which is shared both by significant shareholders of the company as well as the OSC. PIRC particularly has concerns with the lack of board response regarding this matter, a consideration which potentially may be linked to the company's lack of independence on the board.

Given the above collective considerations, we recommend a vote to oppose the Arrangement.

\* = ***Special Resolution***

## 1.1 BOARD OF DIRECTORS

PIRC assesses a non-executive director's independence according to PIRC's shareholder guidelines. Comments represent PIRC's analysis based on information in the report and accounts. *A = audit committee, R = remuneration committee, N = nomination committee, C = CSR or Ethics Committee, \* = committee chairman.*

Frank Stronach		Chairman (Non Executive)	
<b>Age:</b>	77	<b>Date Appointed:</b>	1968
<b>Shares:</b>	0	<b>Options:</b>	
<b>Severance Entitlement</b>		<b>LTIP:</b>	
<b>Other Positions:</b>	Stronach & Co. [Partner], MI Developments Inc. [Dir], Automotive Magna Entertainment Corp. [Dir]		
<b>Comment:</b>	Not independent by company, not independent by PIRC as he has been on the Board for over nine years and he is the founder of the company and he is a trustee and member of the class of potential beneficiaries of the Stronach Trust, which will indirectly hold 7.44% of the outstanding shares of such class (if Resolution 1 is approved). Also, Mr. Stronach is Partner of Stronach & Co., through which he provides certain consulting and business development services to the company. There are also concerns that the Chairman of the Board is the Chair of the nomination committee.		

Belinda Stronach		Executive Director	
<b>Age:</b>	43	<b>Date Appointed:</b>	1988
<b>Shares:</b>	0	<b>Options:</b>	
<b>Severance Entitlement</b>		<b>LTIP:</b>	
<b>Other Positions:</b>	Canadian Automotive Partnership Council Founding Mem], Ontario Task Force on Productivity Competitiveness and Economic Progress [Mem], Yves Landry Foundation [Dir], ex-Magna [Pres and CEO]		
<b>Comment:</b>	Executive Vice-Chairman. Ms. Stronach is a trustee and member of the class of potential beneficiaries of the Stronach Trust, which will indirectly hold 7.44% of the outstanding shares of such class (if Resolution 1 is approved). Ms. Stronach was appointed Chief Executive Officer of Magna and in January 2002 she also became Magna's President. Ms. Stronach announced her resignation as President and Chief Executive Officer of Magna on January 20, 2004.		

Donald J. Walker		Chief Executive	
<b>Age:</b>	53	<b>Date Appointed:</b>	2005
<b>Shares:</b>	131020	<b>Options:</b>	
<b>Severance Entitlement</b>		<b>LTIP:</b>	
<b>Other Positions:</b>	Yves Landry Foundation [Founding member], Canadian Automotive Partnership Council [Co-chair], ex-Decoma International Inc. [Dir], ex-Tesma International Inc. [Dir], ex-Intier Automotive Inc. (one of Magna's former "spinco" public subsidiaries) [Pres and CEO]		
<b>Comment:</b>	Co-Chief Executive Officer of the company.		

Siegfried Wolf		Chief Executive	
<b>Age:</b>	52	<b>Date Appointed:</b>	1999
<b>Shares:</b>	115086	<b>Options:</b>	
		<b>LTIP:</b>	

**Severance  
Entitlement**

**Other  
Positions:** Österreich Industrieholding AG [Mem of supervisory board], Siemens AG Österreich (Siemens Austria) [Mem of supervisory board], HGI Beteiligungs AG [Mem of supervisory board], GAZ Group [Dir], Strabag SE [Dir]

**Comment:** Mr. Wolf serves as the Co-Chief Executive Officer of the company. We have concerns over his aggregate time commitments.

<b>Michael D. Harris</b>		<b>Senior Independent Director</b>	
<b>Age:</b>	65	<b>Date Appointed:</b>	2003
<b>Shares:</b>	0	<b>Options:</b>	
<b>Severance Entitlement</b>		<b>LTIP:</b>	
<b>Other Positions:</b>	Cassels Brock & Blackwell LLP [Senior Business Advisor], Routel Inc. [Dir], Augen Capital Corp [Dir], First Service Corporation [Dir], Canaccord Capital Inc [Dir], EnGlobe Corporation [Dir], Chartwell Seniors Housing REIT [Dir], ex-Grant Forest Products Inc [Dir], ex-Naturade, Inc. [Dir], ex-Premier of the Province of Ontario, Canada, ex-Goodmans LLP [Consultant & Business Advisor], ex-Environmental Management Solutions Inc [Dir]		
<b>Comment:</b>	Lead Director since May 10, 2007. Independent by the company, independent by PIRC. We have concerns over his potential time commitments. We note that Mr. Harris was formerly the Premier of Ontario, under the Conservative Government from 1995 to 2002. Subsequent to that post, he endorsed Executive Vice Chairman (CEO and President at the time) Belinda Stronach, in the 2004 Conservative Party of Canada leadership election.		

<b>J. Trevor Eyton</b>		<b>Non-Executive Director</b>	
<b>Age:</b>	75	<b>Date Appointed:</b>	2010
<b>Shares:</b>	0	<b>Options:</b>	
<b>Severance Entitlement</b>		<b>LTIP:</b>	
<b>Other Positions:</b>	Brascan Ltd. (now Brookfield Asset Management) [Dir and previously President and Chief Executive Officer, Chairman, Senior Chairman], Altus Group Income Fund [Dir], Silver Bear Resources Inc. [Dir], Ivernia Inc. [Dir], ex-Toronto Blue Jays [n/d], ex-Labatt Breweries [n/d], ex-Noranda Inc. [n/d], ex-Trilon Financial [n/d], ex-London Life [n/d], ex-Macmillan Bloedel [n/d], ex-Royal Trustco [n/d], ex-Trizec [n/d], ex-Coca-Cola Enterprises (Atlanta) [Dir], ex-General Motors of Canada [Dir], ex-Nestlé Canada [Dir], ex-Senate of Canada [Member]		
<b>Comment:</b>	Class A Director. Independent by the company, independent by PIRC. However, we have concerns over his aggregate time commitments. We note that he is a Canadian Senator and Ms. Stronach (Vice-Ch) was a former member of Canadian Parliament.		

<b>Lady Barbara Thomas Judge</b>		<b>Non-Executive Director</b>	
<b>Age:</b>	62	<b>Date Appointed:</b>	2007
<b>Shares:</b>	0	<b>Options:</b>	
<b>Severance Entitlement</b>		<b>LTIP:</b>	
<b>Other Positions:</b>	Bekaert NV [Dir], United Kingdom Atomic Energy Authority [Ch], School of Oriental & African Studies at London University [Ch], U.K./U.S. Task Force on Corporate Governance [Co-Ch], International Ethics Standards Board for Accountants [Public Member], Ditchley Foundation [Mem], Trilateral Commission [Mem]		
<b>Comment:</b>	Class A Nominee Director. Independent by company, independent by PIRC. However, we have concerns over her aggregate time commitments.		

<b>Louis E. Lataif</b>		<b>Non-Executive Director</b>	
<b>Age:</b>	70	<b>Date Appointed:</b>	2007
<b>Shares:</b>	0	<b>Options:</b>	
<b>Severance Entitlement</b>		<b>LTIP:</b>	
<b>Other Positions:</b>	School of Management of Boston University [Dean], Abiomed Inc. [Dir], Group 1 Automotive Inc. [Dir], Interaudi Bank [Dir], The Iacocca Foundation [Dir]		

**Comment:** Independent by company, independent by PIRC. However, we have concerns over his aggregate time commitments.

<b>Donald Resnick</b>		<b>Non-Executive Director</b>			
<b>Age:</b>	82	<b>Date Appointed:</b>	1982	<b>Committees:</b>	A*, R, C*
<b>Shares:</b>	1902	<b>Options:</b>		<b>LTIP:</b>	
<b>Severance Entitlement</b>					
<b>Other Positions:</b>	ex-Consolidated Mercantile Inc [Dir], ex-Genterra Inc [Dir], ex-Deloitte & Touche [Partner]				
<b>Comment:</b>	Independent by company, not independent by PIRC as he has been on the board for more than nine years.				

Franz Vranitzky		Non-Executive Director	
<b>Age:</b>	72	<b>Date Appointed:</b>	1997
<b>Shares:</b>	1417	<b>Options:</b>	
<b>Severance Entitlement</b>		<b>LTIP:</b>	
<b>Other Positions:</b>	Touristik Union International [Dir], Magic Life International [Ch], Creditanstalt-Bankverein Bank [Deputy Chairman], ex-Österreichische Länderbank AG [Ch]		
<b>Comment:</b>	Independent by company, not independent by PIRC as he has been on the board for more than nine years.		

Lawrence Worrall		Non-Executive Director	
<b>Age:</b>	67	<b>Date Appointed:</b>	2005
<b>Shares:</b>	907	<b>Options:</b>	
<b>Severance Entitlement</b>		<b>LTIP:</b>	
<b>Other Positions:</b>	Greater Toronto Airport Authority [Pres], Productivity Improvement Center [Pres], ex-Intier Automotive Inc. [Dir], ex-General Motors of Canada Limited [Dir]		
<b>Comment:</b>	Independent by company, independent by PIRC.		

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Pensions & Investment Research Consultants Limited  
6th Floor  
9 Prescott Street  
London E1 8AZ

Tel: 020 7247 2323  
Fax: 020 7247 2457  
Email: [info@pirc.co.uk](mailto:info@pirc.co.uk)  
<http://www.pirc.co.uk>

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